How $12,000 in TFSA Contributions Can Grow to $240,000

Description

Canadian couples are searching for ways to set aside enough cash to enjoy a comfortable retirement.

The task might seem daunting amid the constant pressure of paying student loans, daycare, commuting costs, and the rent or mortgage.

Fortunately, it doesn't take much money to create a retirement fund that can grow to a substantial cash pile over the course of 20 or 30 years. The secret lies in setting aside a small amount of money every month and using the savings to harness the power of compounding.

The best way to do this is to own top-quality dividend stocks inside a TFSA. The distributions can be used to buy new shares, and when the time comes to cash out and enjoy the money, any capital gains go straight into your pocket.

The TFSA contribution allowance is currently set at $6,000 per year. That gives a couple $12,000 in tax-free investment space.

Let's take a look at one stock that is a good example of how investing a small amount of money in your TFSA retirement fund could set you up for life.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) is a leader in the North American rail industry with thousands of kilometres of tracks connecting the Atlantic and Pacific coasts in Canada as well as the Gulf of Mexico in the United States.

The company transports all the essentials needed to keep the economy running, with loads ranging from coal, crude oil, and cars to lumber, grain, fertilizer, and finished goods. When one segment hits a downturn, the others tend to pick up the slack, providing a balanced revenue stream. In addition, CN gets a substantial chunk of its earnings from the U.S. operations, providing investors with good exposure to the American economy through a Canadian stock.

CN is spending $3.9 billion in 2019 on a range of capital initiatives, including new locomotives, additional rail cars, and network upgrades. This takes a big chunk of its cash flow, but CN still has enough left over to pay the dividend it increased by 18% this year and buy back stock under its share-repurchase program.

The company has limited competition, and it is highly unlikely new tracks would be built along the same routes. As the Canadian and U.S. economies expand, CN should see steady revenue growth.

Long-term investors have done well with CN shares. A $12,000 investment in CN 20 years would be worth about $240,000 today with the dividends reinvested.

The bottom line

It takes some discipline, but Canadian couples can hit their goals of enjoying a comfortable retirement.

The strategy of buying dividend-growth stocks and investing the distribution in new shares is a proven one, and investors have a number of top TSX Index stocks to choose from when building their retirement funds.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2019/07/12
Author
aswalker